

**GOVERNMENT OF TELANGANA
ABSTRACT**

Guarantee – Guarantees issued by State Government - Meeting the invocation obligations –
Guarantee Redemption Fund - Creation - Orders - Issued .

FINANCE (DCM) DEPARTMENT

G.O.Ms.No. 4

Dated:11-06-2014.

Read the following

1. G.O.Ms.No.6, Finance (BG-II) Department, Dated: 3-1-2002 from Government of Andhra Pradesh.
2. G.O.Ms.No.71, Finance (DCM-I) Department, Dated: 24-3-2014 from Government of Andhra Pradesh.
3. CAS.GOV-T-I No.3808/10.01.24/2013-14, Dated 6-6-2014 from the Manager, RBI, CAS, Nagapur.

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ORDER:

In the reference 1st read above orders have been issued creating a Guarantee Redemption Fund for Government of Andhra Pradesh for meeting the invocation obligation on the Guarantees issued by State Government.

In the reference 2nd read above an amendment orders have been issued to the reference 1st read above on certain clauses.

In the reference 3rd read above the Managaer, Central Accounts Section, Reserve Bank of India, Nagapur while forwarding the draft notification of revised Guarantee Redemption Fund scheme and requested to notify the scheme and publish the same in the Gazettee of the Government of Telangana which will enable them to invest in the said scheme.

2. Government have carefully examined the matter in the light of guidelines issued by Reserve Bank of India, Central Accounts Section, Nagapur in this regard in the reference 3rd read above and have decide to create Guarantee Redemption Fund for Telangana State to meet invocation obligation pertaining to the guarantees to be issued by Government of Telangana in respect of bonds to be issued and other borrowings to be made by State Level undertakings and other bodies. The accumulations, in the Fund will be utilised only towards, the payment of amounts for which guarantees issued by the Government and invoked by the beneficiary and not paid by the institution on whose behalf guarantee was issued.

3. Government, also hereby decides to contribute 0.5% of the, guarantees outstanding against such corporations or institutions whose liability is not taken over directly or indirectly by Government as on 31st December of every year as annual contribution to the fund account. In addition to the income accrued to the Fund, Government also decides to transfer the accretions by way of Guarantee Commission realised during the preceding year from the

institutions etc. to whom the State Government have issued guarantee, to the fund account, during the succeeding year.

4. The Guarantee Redemption Fund shall be constituted as per the guidelines of Reserve Bank of India **Annexed** to this order under Public Account under the Head of Account - J. Reserve Funds (B) Reserve Funds not bearing interest - 8235 General and Other Reserve Funds MH-202 Guarantee Redemption Fund. S.H.(04) Relief on Account of Guarantees Invoked Guarantee Redemption Fund (to be opened). In order to enable transfer of total amount to fund account. Budget provision shall be made on expenditure side under the Head of Account 4070 Other Administrative Services, MH-797-Transfer of Reserve Fund and Deposit Account SH(04)-Transfer to Guarantee Redemption Fund 300 Inter Account Transfer (to be opened) as the contribution to the fund account to be invested in securities.

5. The IDMD division, Reserve Bank of India, Mumbai shall apportion the undivided Guarantee Redemption Fund and shall credit the share of Telangana to the Guarantee Redemption Account of Government of Telangana.

6. The Central Account Section of RBI at Nagapur shall invest the initial corpus of the fund and the accretions to the fund together with income earned on the investment of the fund, till instructions are issued to the contrary, if any in one or more of the following security.

1. Central Government dated Securities.
2. State Government Securities of Government of Telangana.
3. Auctioned treasury bills of Government of Telangana.

7. The investment may be made on quarterly basis starting from June, September, December, March every year.

(BY ORDER AND IN THE NAME OF THE GOVERNOR OF TELANGANA)

V. NAGI REDDY

PRINCIPAL SECRETARY TO GOVERNMENT

To

The Accountant General (A&E), Telangana, Hyderabad.. ; .

The Director of Treasuries and Accounts, A.P., Hyderabad.

Copy to:

The Reserve Bank of India, Central Office, Mumbai.

The Reserve Bank of India, Central Accounts Section, Nagpur.

Reserve Bank of India, Saifabad, Hyderabad

SFs/SCs.

ANNEXURE

(Annexed to G.O.Ms.No.4, Finance (DCM) Department, Dated: 11-6-2014)

Scheme for Constitution and Administration of the Guarantees Redemption Fund of Government of Telangana

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|---------------------------------|----------|--|
| Title of the Scheme | 1 | The Scheme shall be called ‘Guarantees Redemption Fund Scheme’ (hereinafter referred to as the ‘Fund’) |
| Constitution of the Fund | 2 | <p>A ‘Guarantees Redemption Fund’ shall be constituted by the Government of Telangana (hereinafter called the Government) consequent upon its formation in terms the Andhra Pradesh Reorganisation Act, 2014 (No. 6 of 2014) and the apportioned share of Telangana in the outstanding balance of the extant Guarantee Redemption Fund (GRF) scheme of Andhra Pradesh shall be transferred to Telangana for meeting its obligations arising out of the Guarantees issued on behalf of State level bodies.</p> <p>The Fund shall be constituted in the Public Account and classified under the head “ General and Other Reserve Funds – Guarantees Redemption” in the accounts of the Government.</p> |
| Objective of the Scheme | 3 | The Fund shall be utilised for meeting the payment obligations arising out of the guarantees issued by the Government in respect of bonds issued and other borrowings by the State Level Undertakings or other bodies and invoked by the ‘beneficiaries’. |

Explanation

- (a) The accumulations in the Fund shall be utilised only towards the payment of the guarantees issued by the Government and invoked by the beneficiary and not paid by the institution on whose behalf guarantee was issued.

Provided that the net incremental annual investment of States (i.e. outstanding balance over and above the level in the corresponding period of the previous year) shall be eligible for availing Special ways and means advances (Special WMA) from the Reserve Bank of India (hereinafter referred to as the Bank) such that the availment of Special WMA under this provision does not exceed the Normal WMA limit fixed by the Bank.

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| Commencement of the Operation of the scheme | 4 | It shall come into force with effect from the second day of June two thousand and fourteen. |
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Contributions to the Fund 5

(a) The Fund shall be set up by the Government with an initial contribution of minimum one per cent of outstanding guarantees at the end of the previous year and thereafter minimum 0.5 per cent every year to achieve a minimum level of 3 per cent in next five years. The Fund shall be gradually increased to a desirable level of 5 per cent. If guarantees have been invoked or are likely to be invoked, additional Funds (over and above 5%) shall be maintained.

(b) It is open to the Government to increase the contributions to the Fund (beyond 0.5 per cent annual) at its discretion and also based on its assessment of likely invocation of guarantees. The balance in the Fund shall be increased with contributions made annually or at lesser intervals.

(c) It is open to the Government to increase the contributions to the Fund at its discretion.

In order to enable transfer of the total amount of contribution to the Fund, the Government would make suitable Budget provision on the expenditure side of their budget under the head “ Relief on Account of Guarantees Invoked – Guarantees Redemption Fund – Transfer to Reserve Fund and Deposit Accounts – Guarantees Redemption Fund”.

(d) The Government shall not fund its contribution to the Fund out of borrowings from the Bank.

Relationship of the Fund with General Revenues / Public Account 6

(a) The corpus of the Fund comprises an initial amount demarcated by the Government, annual or other contributions made by the Government thereto as also periodic accretions by way of Guarantee Commission collected from the institutions in respect of whose bonds / obligations, the Government had issued the guarantee, in addition to the income accruing to the Fund.

(b) The Fund shall be kept outside the General Revenues of the Government and shall be utilised only in the manner prescribed in this Scheme.

Administration of the Fund 7

The Fund shall be administered by Central Accounts Section of the Bank) subject to such directions/instructions as the Government may issue from time to time.

Investment of the corpus of the Fund 8 The accretions to the Fund shall be invested in Government of India Dated Securities, Treasury Bills, Special Securities of the GoI and State Development Loans of other States of such maturities as the Bank may determine from time to time in consultation with the Government. The Bank shall make available the securities for investment either from its own investment portfolio or by acquiring the securities from the secondary market, without loading any charge other than that indicated in paragraph 11.

Accounting Transactions of 9 (a) The responsibility for the administration of the Fund will rest with the Government. The Government will decide all matters connected with the investment of the corpus of the Fund, reinvestment / dis-investment, obligations and application of the Fund, etc.

(b) The Government will, from time to time, issue instructions to the Bank. The Bank will immediately arrange to make the necessary investment. The Bank would scroll to the Government the debit on account of the investment and other incidental charges like brokerage, commission etc. in the usual course. However, in order to ensure that the investment transactions of the Fund do not get mixed up with other transactions, these may be indicated distinctly in separate scrolls.

(c) On receipt of the scrolls the investment transactions would be accounted for under the head “ General and Other Reserve Funds Guarantees Redemption Fund Investment Account”. However, the incidental charges like brokerage, commission etc. shall be accounted for as a charge on the Fund.

(d) The Bank will arrange to collect interest on these securities and credit the same to the Fund on due date. Further, these would require to be invested as in the case of the contributions by the Government i.e. in accordance with the investment norms prescribed in para 8 above. On maturity of the securities, the proceeds will be collected and credited to the account of the Government or reinvested on the basis of instructions received from the Government. i.e. in accordance with the pattern outlined in para 8 intra. As in the case of the debit scrolls, the Bank shall use separate scrolls, for the receipts.

(e) On receipt of instructions from the Government, the Bank will arrange to sell the securities at the ruling price through its Mumbai office and credit the amount realised, less incidental

charges, to the account of the Government.

(f) The receipts on account of maturity or sale of the securities would be taken to the account of the “Guarantees Redemption Fund Investment Account”. The incidental charges on sale would be charged on the Fund.

(g) The provision for expenditure on account of the Guarantees Redemption will be made in the budget of the Government under the relevant heads. Only the actual amount of guarantee redemption expenditure shall be brought in account under the head Relief on account of Guarantees invoked – Guarantees Redemption Fund.

(h) The Bank shall arrange to redeem the securities on maturity. In case of premature disinvestment to meet the liability on account of the claims to be paid, the Bank shall decide on the securities to be encashed in consultation with the Government and sell the securities at the ruling price and credit the amount realised, less incidental charges to the Fund.

(i) The Government will pay the Bank, a commission at the rate determined by the Bank in consultation with the Government. These charges shall also be borne by the Fund as in the case of the charges indicated in paras 9(c) and 9(f). The loss or gain on the sale of securities shall also be taken to the Account of the Fund.

Explanation

(a) The debit to Government on account of such withdrawal will be accounted under the major head _____. On the maturity of the loan the balance outstanding under the head ____ (sub-head Guarantees Redemption Fund) is credited to the head ____ (Miscellaneous Government Account) Ledger Balance Adjustment Account.

(b) The Bank would scroll to the Government the debit on account of investment less the incidental charges in the usual course. However, in order to ensure that the investment transactions of the Fund do not get mixed up with other transactions, these will be indicated distinctly in separate scrolls.

(c) The Bank will arrange to collect interest on the investments and credit the same to the Fund on the due dates.

(d) On the maturity of the securities, the Bank will arrange to redeem the securities and in case of premature disinvestment, to sell the securities at the ruling price and credit the amount realised, less incidental charges to the Guarantees Redemption Fund Investment Account. As in the case of debit scrolls, the Bank shall use separate scrolls for the receipts.

(e) The provision for expenditure on account of the periodic contributions will be made in the Budget of the Government under the relevant head. The extent of expenditure to be financed from the Fund shall be withdrawn from the Fund by the disposal of the investment.

*Functions of the
Bank managing the
Fund*

10 (a) The Bank will be guided by the directions of the Government in all matters concerning the investment / reinvestment / disinvestment / reallocation / withdrawals time to time of the Fund and will act accordingly.

(b) The Bank would arrange to raise a debit to the account of the Government maintained with it as per the schedule of contributions set out in paragraph 5.

(c) The contributions to the Fund shall be invested by the Bank in Government Securities as indicated in paragraph 8. The periodic accretion to the Fund by way of guarantee commission, contributions by the Government and interest income shall also be invested by the Bank in a similar manner.

(d) The withdrawals may be made from out of the balance accumulated in the Fund up to the date towards the redemption of the guarantees invoked and to be paid by the Government, as per its directions or Government shall have the option to withdraw excess fund over 5 per cent of outstanding guarantees of the previous year.

(e) The Bank will submit periodical statement of balances / advices regarding the changes therein in consultation with the Government,

**Services charges
for administration
of the Fund**

11 The Government will pay to Bank a commission at the rate of 1/8 per cent of one per cent of the turnover of the Fund or at the rate to be mutually decided from time to time.

Account and Audit

12 The accounts of the Fund and the investments shall be maintained by the Accountant General of the State in the normal course. The

concerned Department of the Government will maintain subsidiary accounts in such manner and detail as may be considered by the Government in consultation with the Accountant General.

Savings

- 13** The Government shall issue instructions relating to the provisions of the Scheme as may be considered from time to time to enable smooth functioning of the Scheme. In case of any difficulty in the operation of any provision of the Scheme, the Government may, if satisfied, relax the provisions.